



February 6, 2020

An Overview of *The Budget and Economic Outlook: 2020 to 2030*

A Joint Seminar by the Congressional Budget Office
and the Congressional Research Service

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The Congressional Budget Office

CBO's Role

To provide the Congress with objective, nonpartisan, and timely analyses of legislative proposals and of budgetary and economic issues to support the Congressional budget process

CBO's Process for Developing the Budget Baseline

What Is CBO's Baseline?

- A detailed projection for the current year and the ensuing 10 years of federal spending, revenues, and the resulting deficits and surpluses
- Based on CBO's economic forecast
- Incorporates the assumption that current laws governing taxes and spending generally remain in place
- Not a forecast of future budgetary outcomes; those depend on future Congressional action and other factors
- Generally provided two or three times a year
- Reported in the annual *Budget and Economic Outlook* and subsequent reports

How Is the Baseline Constructed?

- Principles and rules mainly come from law, budget resolutions, House and Senate rules, and the 1967 *Report of the President's Commission on Budget Concepts*.

- A key law is the Balanced Budget and Emergency Deficit Control Act, section 257.
 - Defines the baseline
 - Sets out rules for projecting spending and revenues
 - Requires an assumption of full funding for entitlements
 - Directs the treatment of expiring programs and certain excise taxes

How Do CBO and the Congress Use the Baseline?

- A benchmark for measuring the budgetary effects of proposed changes in federal revenues and mandatory spending

- Basis for:
 - Cost estimates for proposed legislation
 - CBO's analyses of the President's annual budget
 - CBO's budget options volume
 - Other reports (including those describing CBO's long-term budget projections)
 - Assessments of multiyear budget trends

- Often a starting point for budget resolutions

CBO's Current
Budget and Economic Outlook

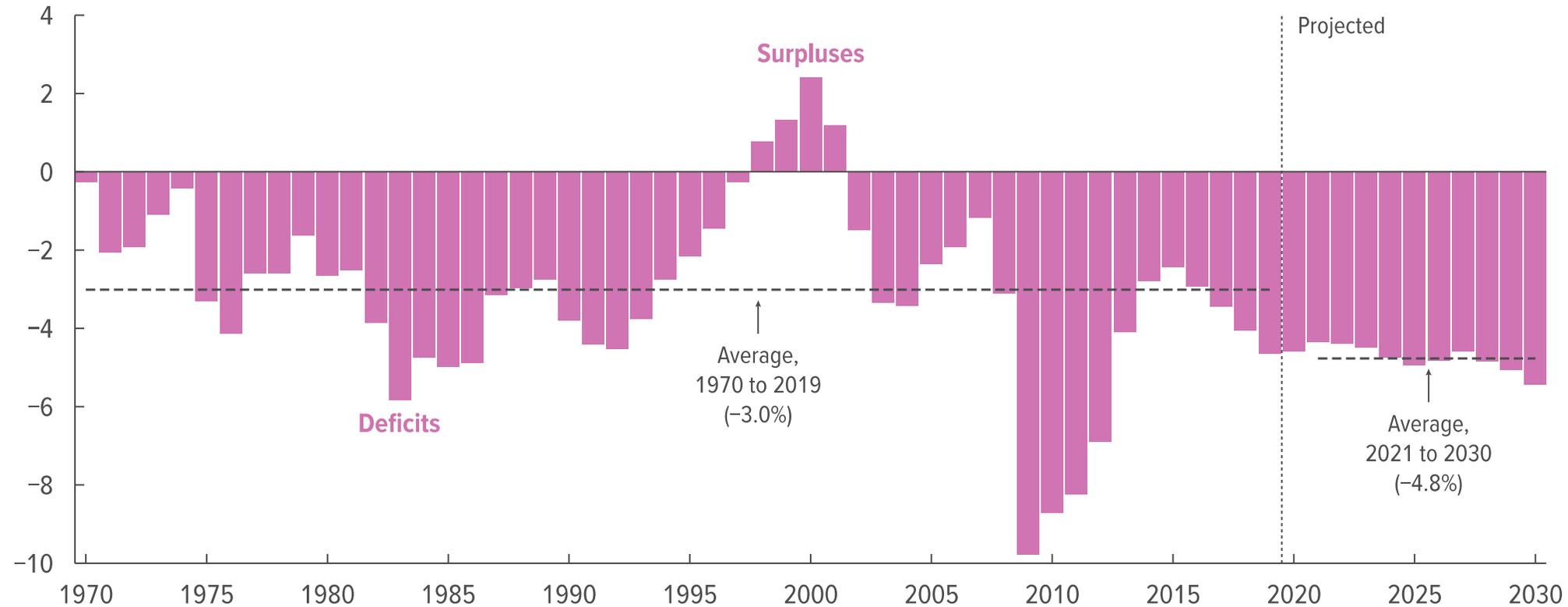
Baseline Projections

- Deficits and debt
- The economy
- Revenues
- Spending
- Policy alternatives

Deficits and Debt

Total Deficits and Surpluses

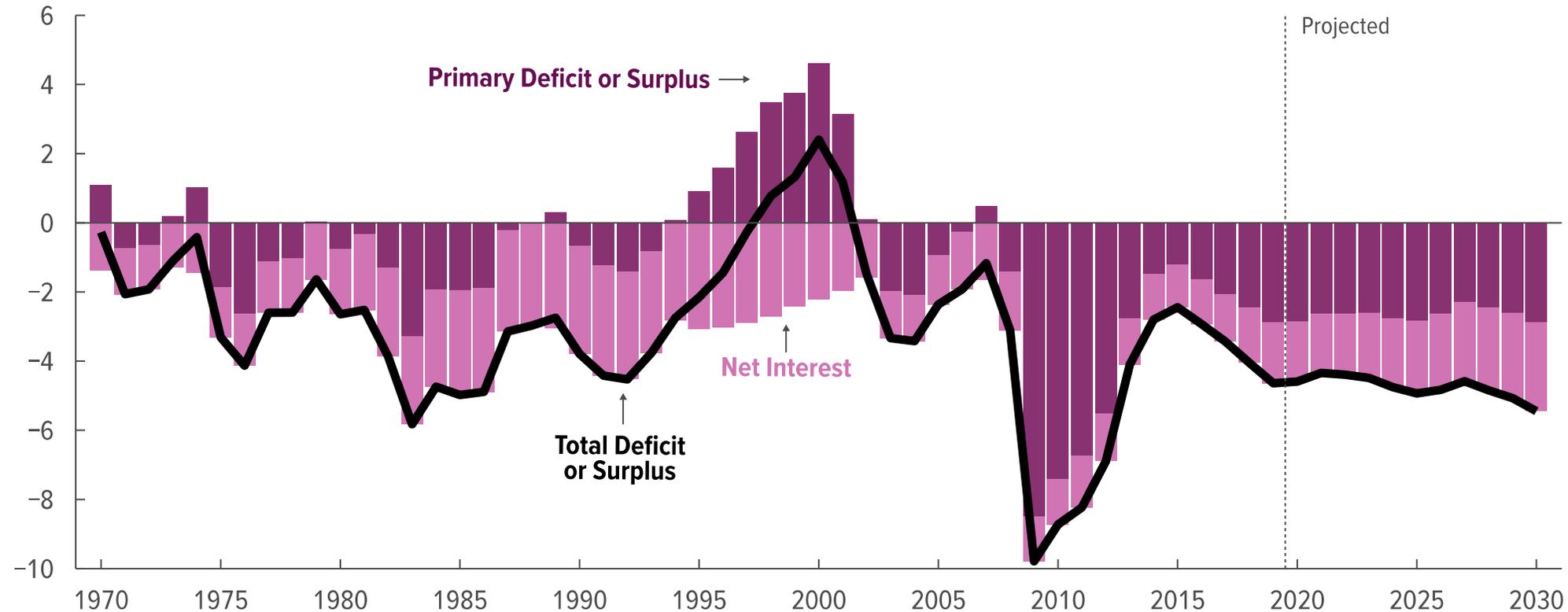
Percentage of Gross Domestic Product



When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts.

Total Deficit, Primary Deficit, and Net Interest

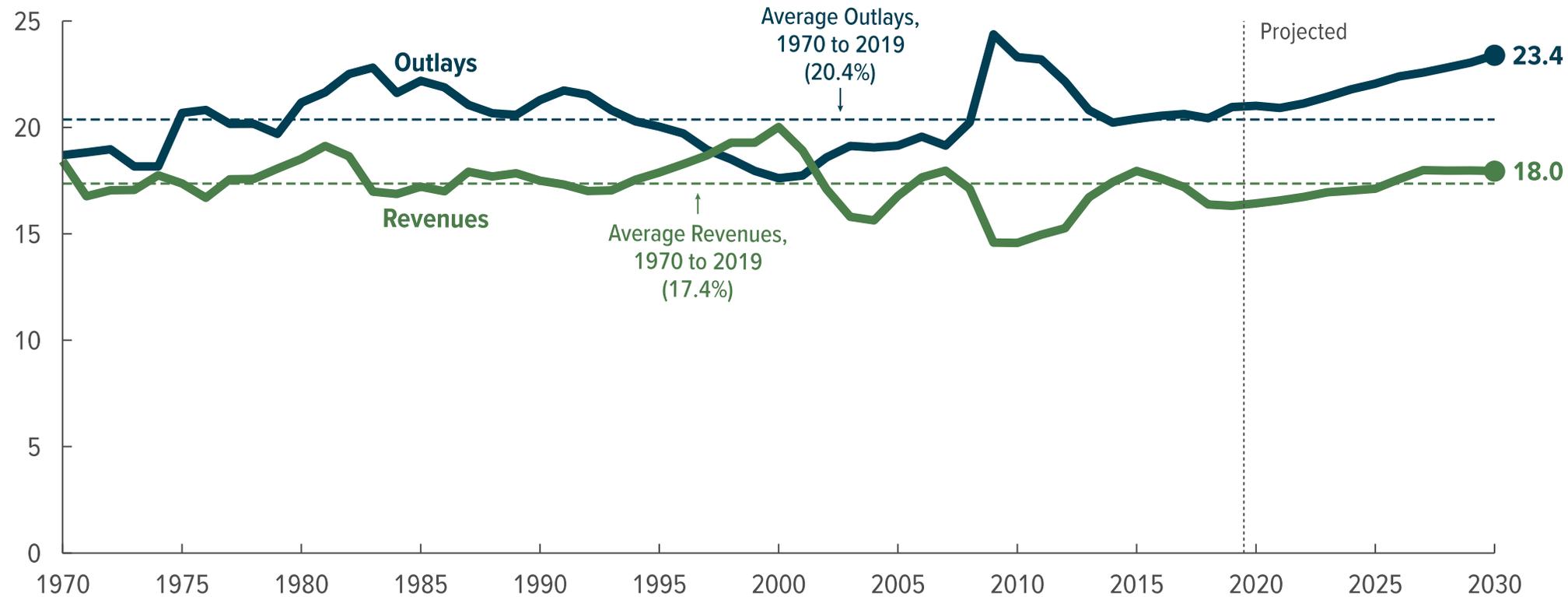
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Total Revenues and Outlays

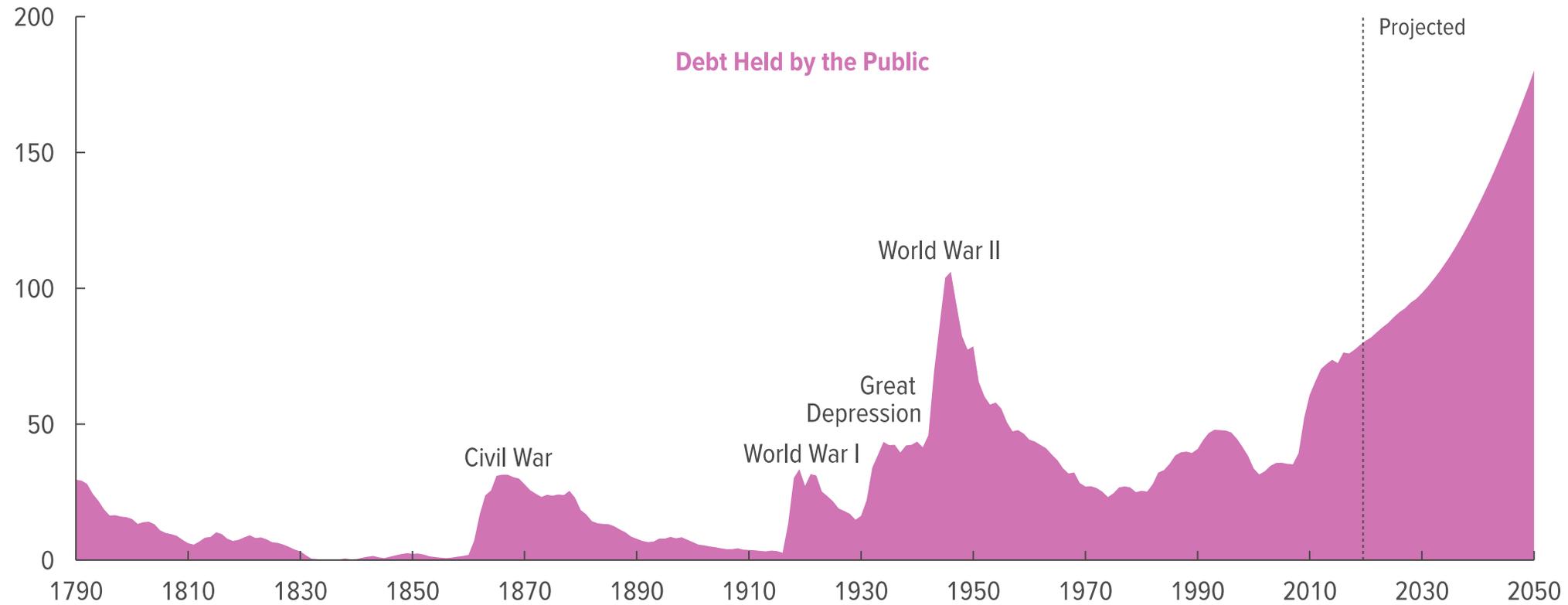
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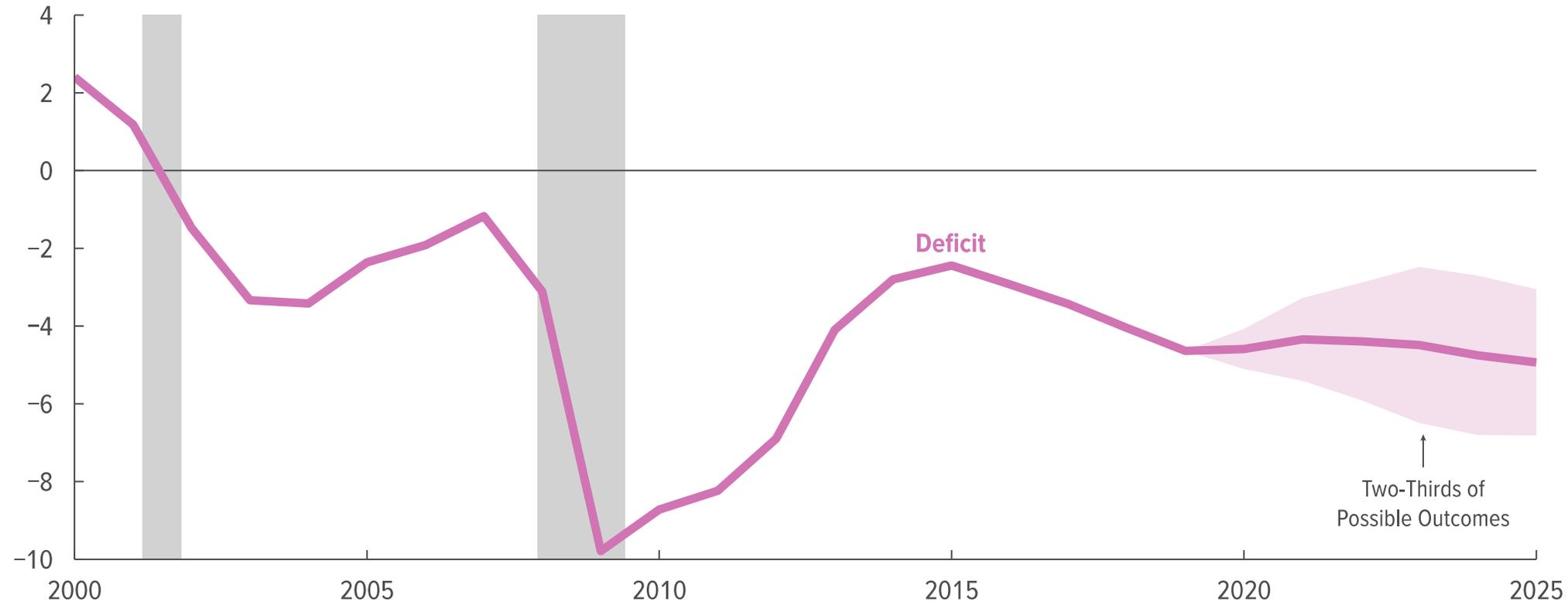
Federal Debt Held by the Public

Percentage of Gross Domestic Product



The Uncertainty of CBO's Baseline Projections of the Budget Deficit

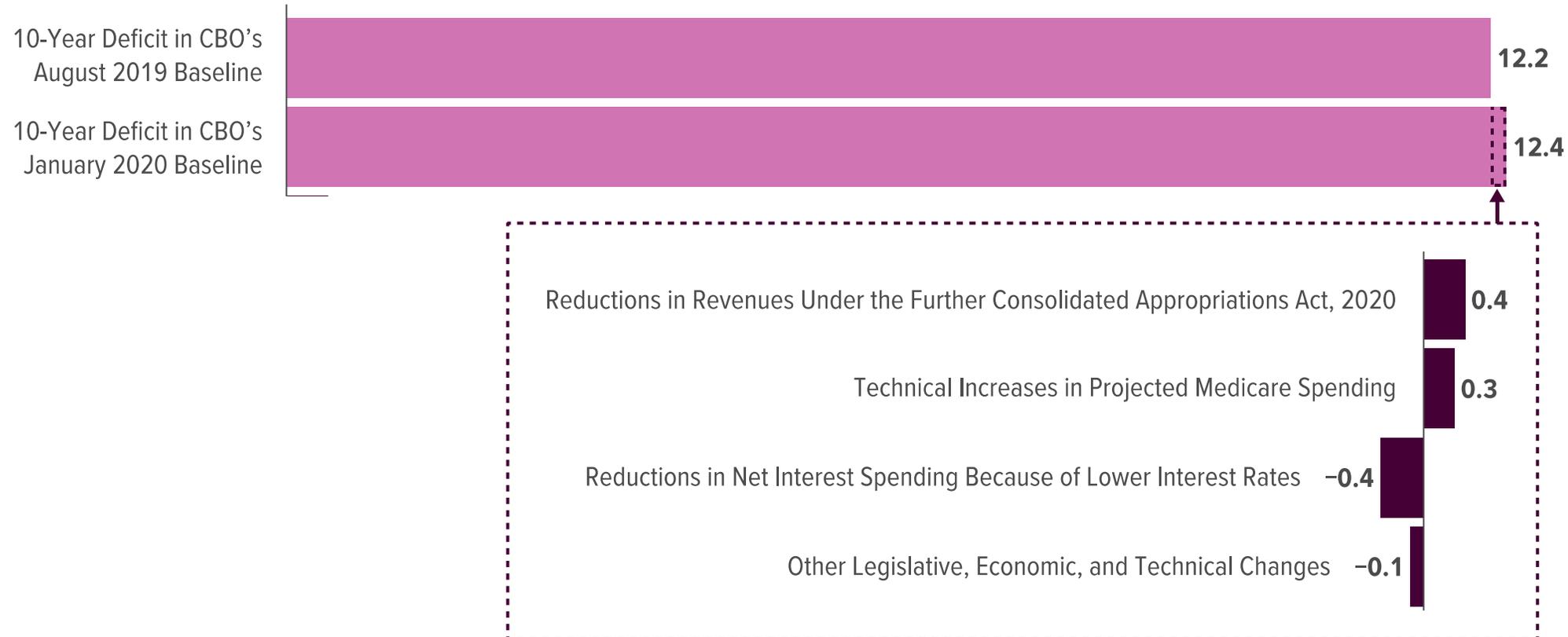
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Changes in CBO's Baseline Projection of the 10-Year Deficit Since August 2019

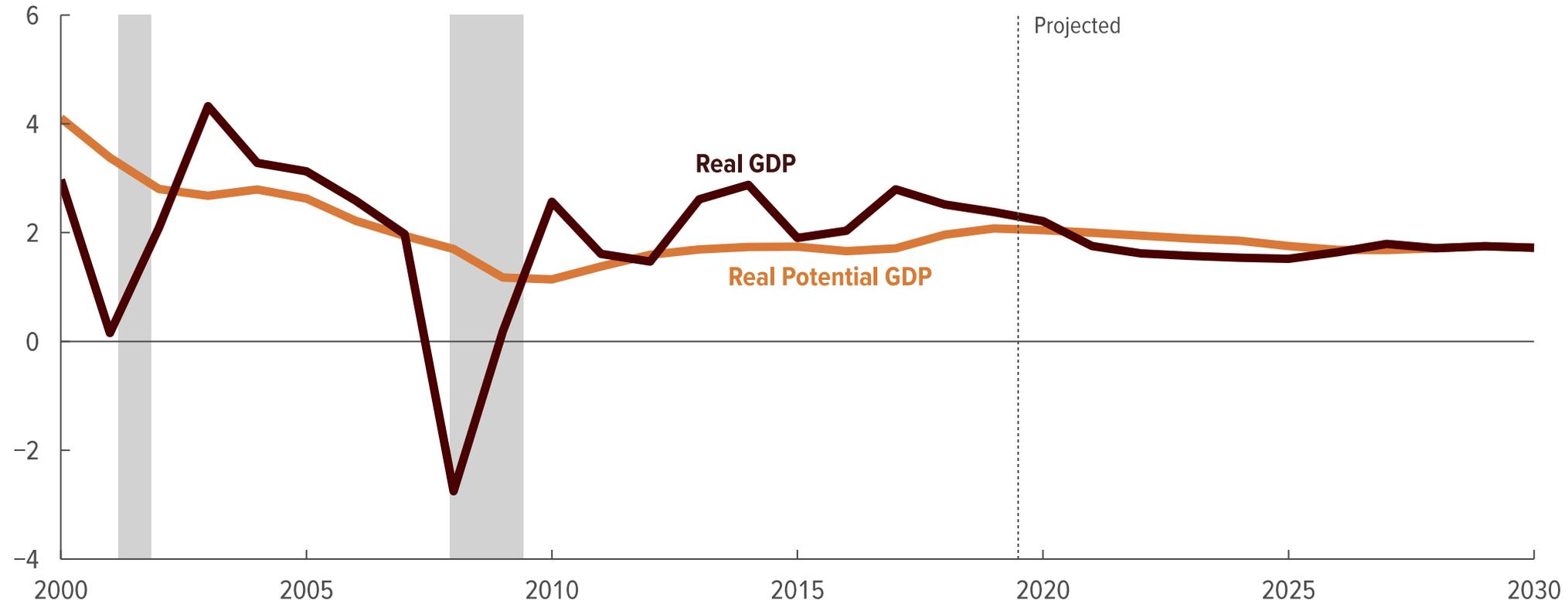
Trillions of Dollars



The Economy

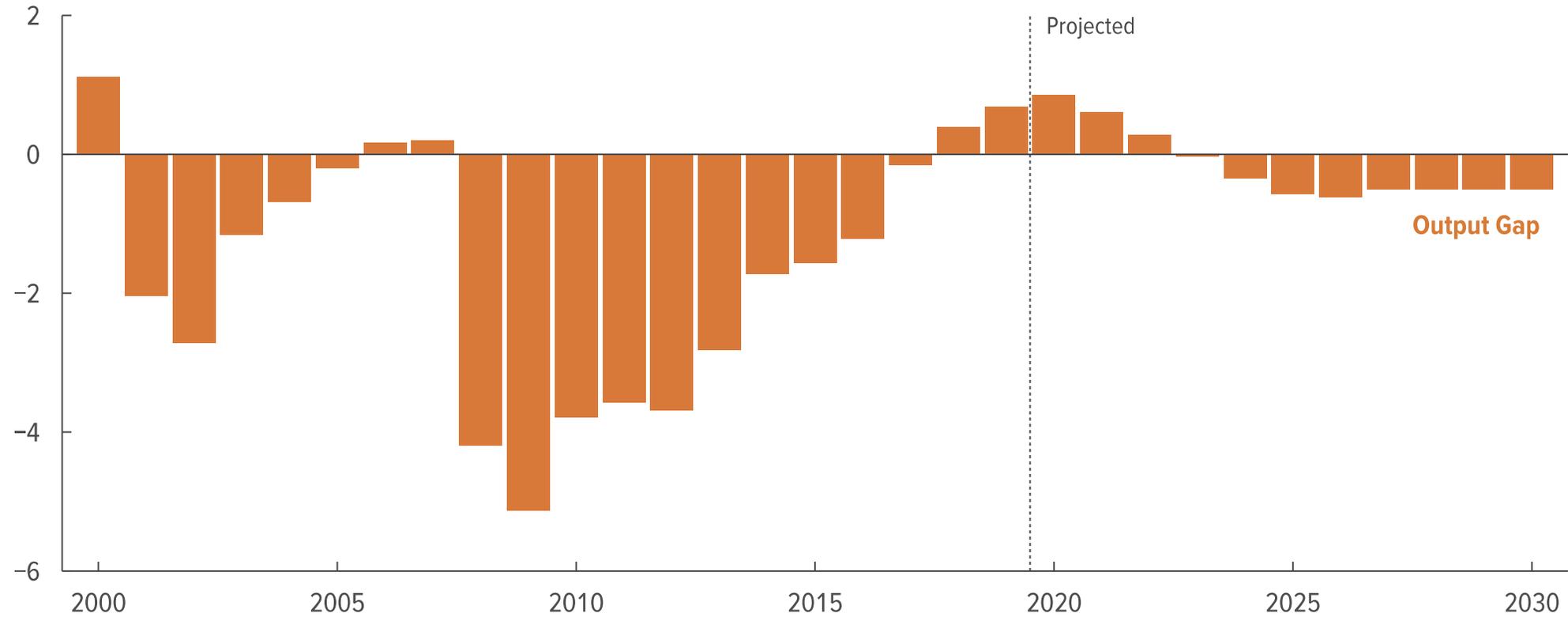
Real GDP and Real Potential GDP

Percentage Change



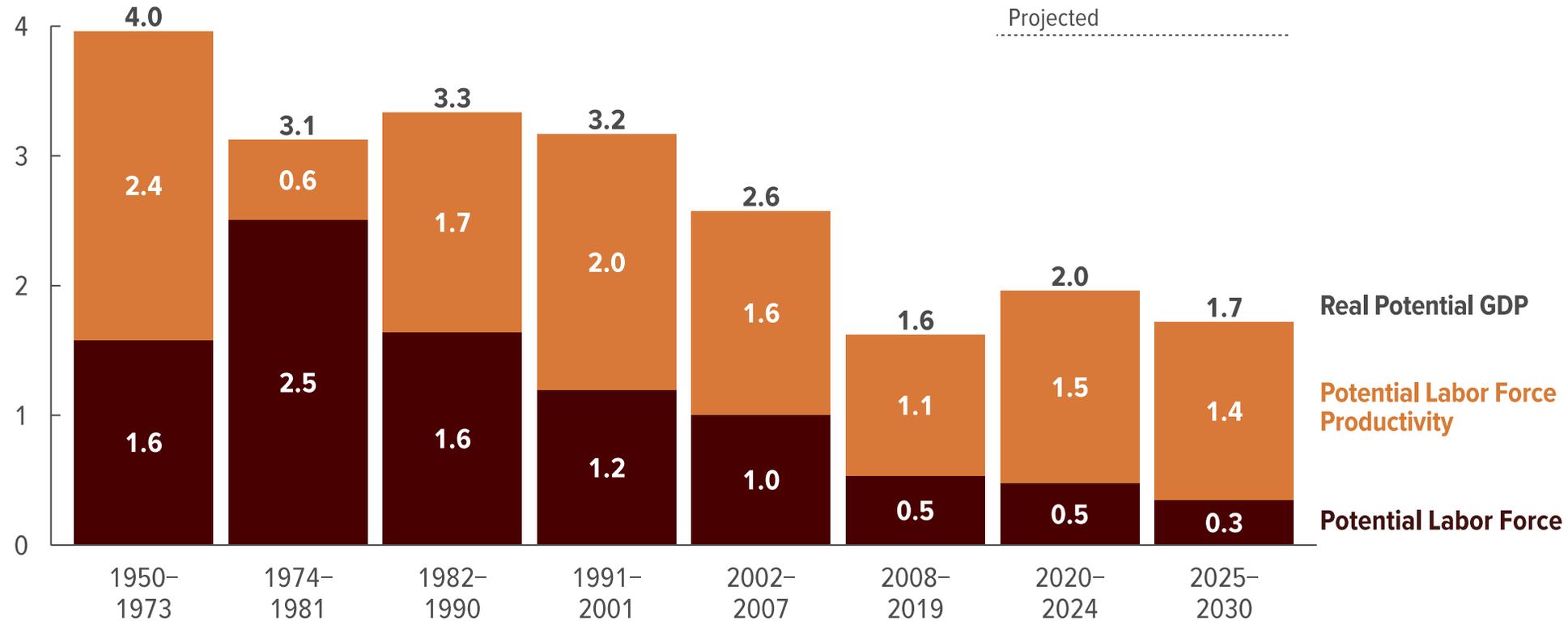
The Output Gap

Percentage of Potential GDP

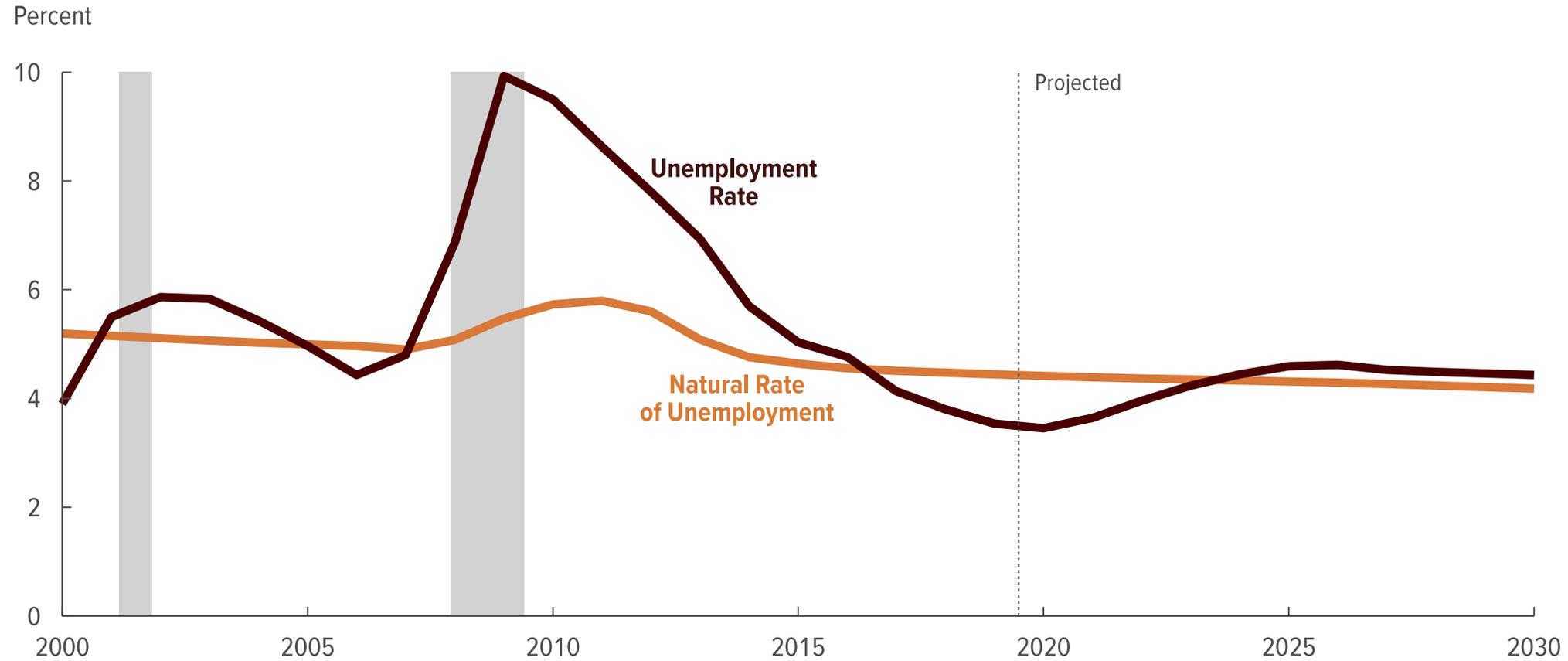


Composition of the Growth of Real Potential GDP

Percentage Change

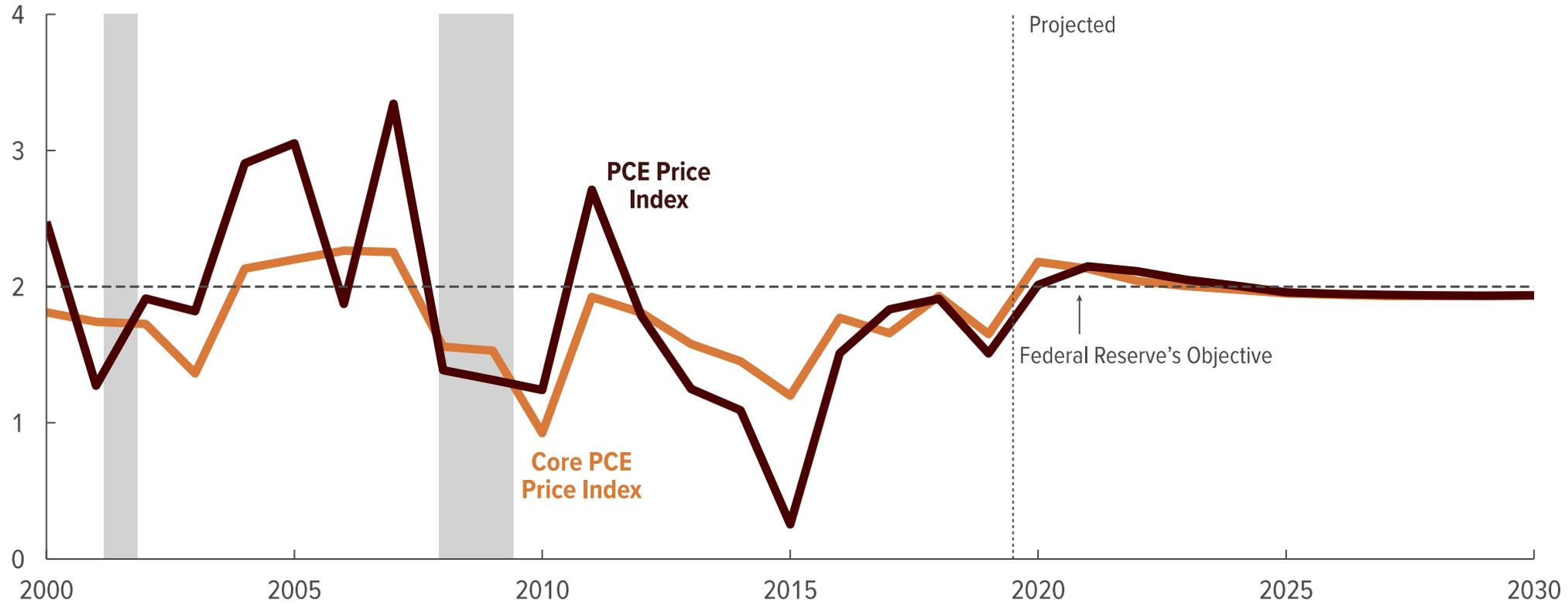


The Unemployment Rate and the Natural Rate of Unemployment

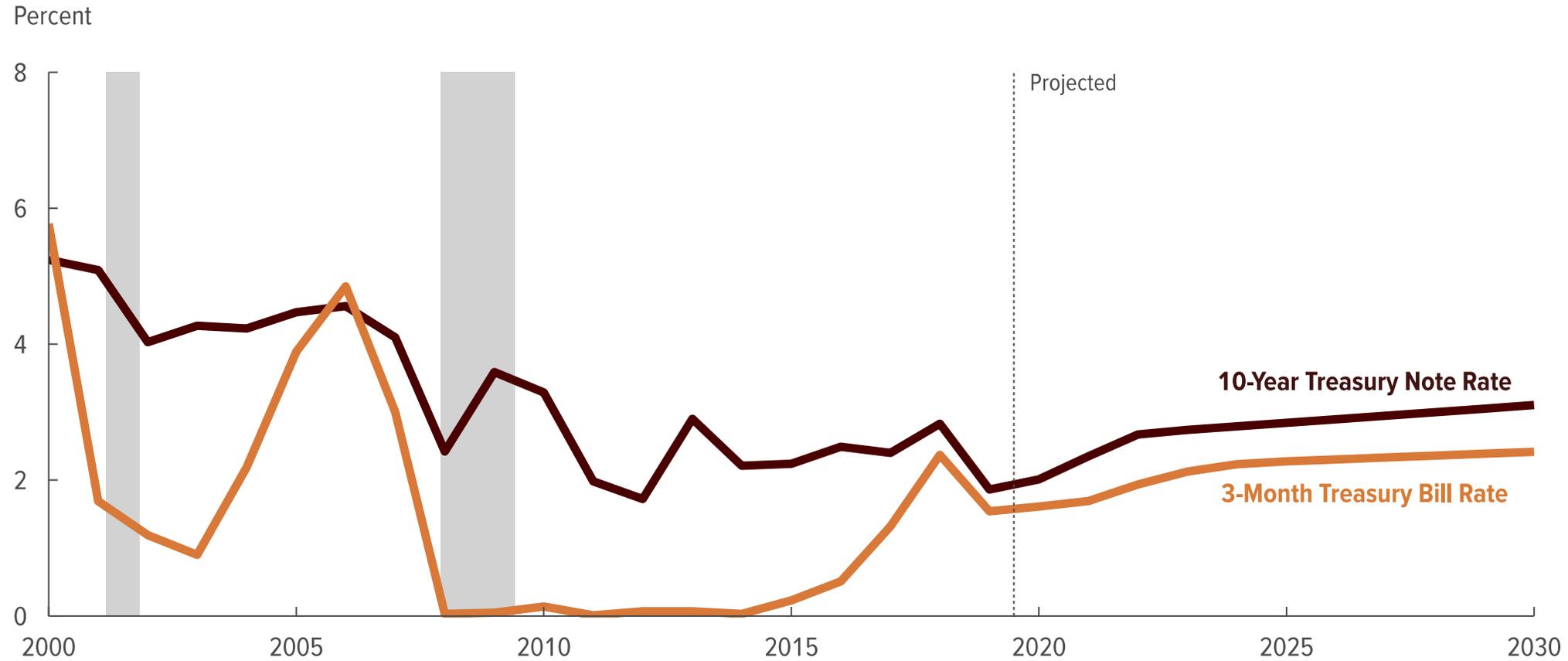


Inflation

Percentage Change



Interest Rates



Revenues

Changes in Projected Revenues From 2020 to 2030

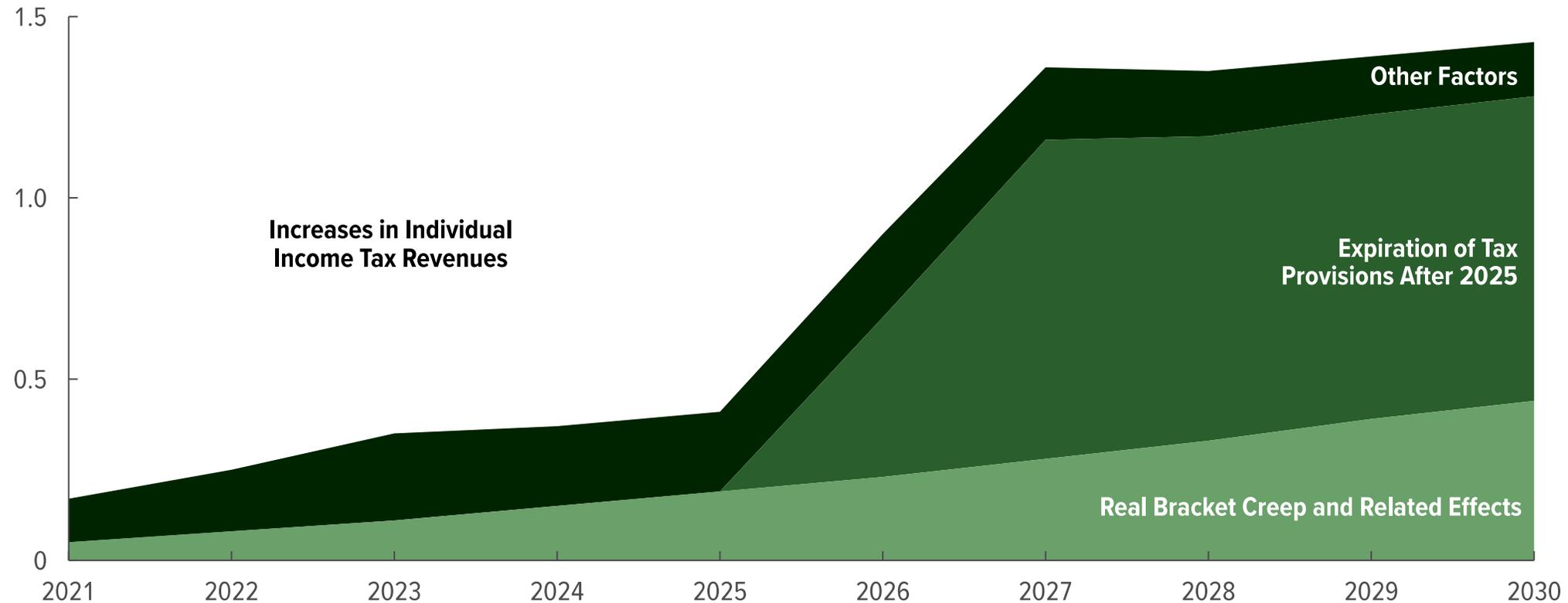
Percentage of Gross Domestic Product

| | Revenues | | Change (Percentage points) | Major Reasons for Change |
|-------------------------|----------|------|-------------------------------|---|
| | 2020 | 2030 | | |
| Individual Income Taxes | 8.1 | 9.5 | 1.4 | Expiration of certain provisions of the 2017 tax act after 2025; real bracket creep |
| Payroll Taxes | 5.9 | 5.9 | * | Not applicable |
| Corporate Income Taxes | 1.1 | 1.3 | 0.2 | Scheduled changes in tax rules enacted in the 2017 tax act |
| Other Taxes | 1.4 | 1.2 | -0.1 | Repeal of a tax on health insurance providers |

* = between zero and 0.05 percentage points.

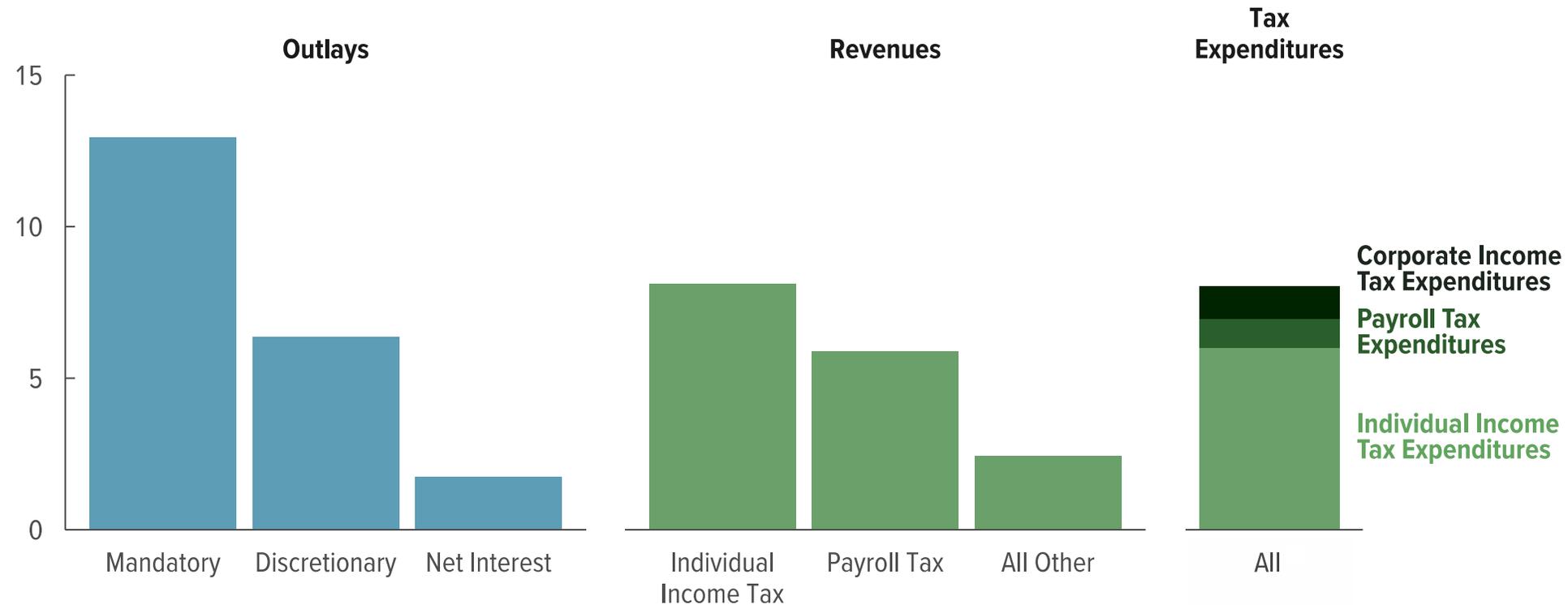
Reasons for the Growth of Individual Income Tax Receipts in CBO's Baseline Projections

Percentage of Gross Domestic Product



Outlays, Revenues, and Tax Expenditures in 2020

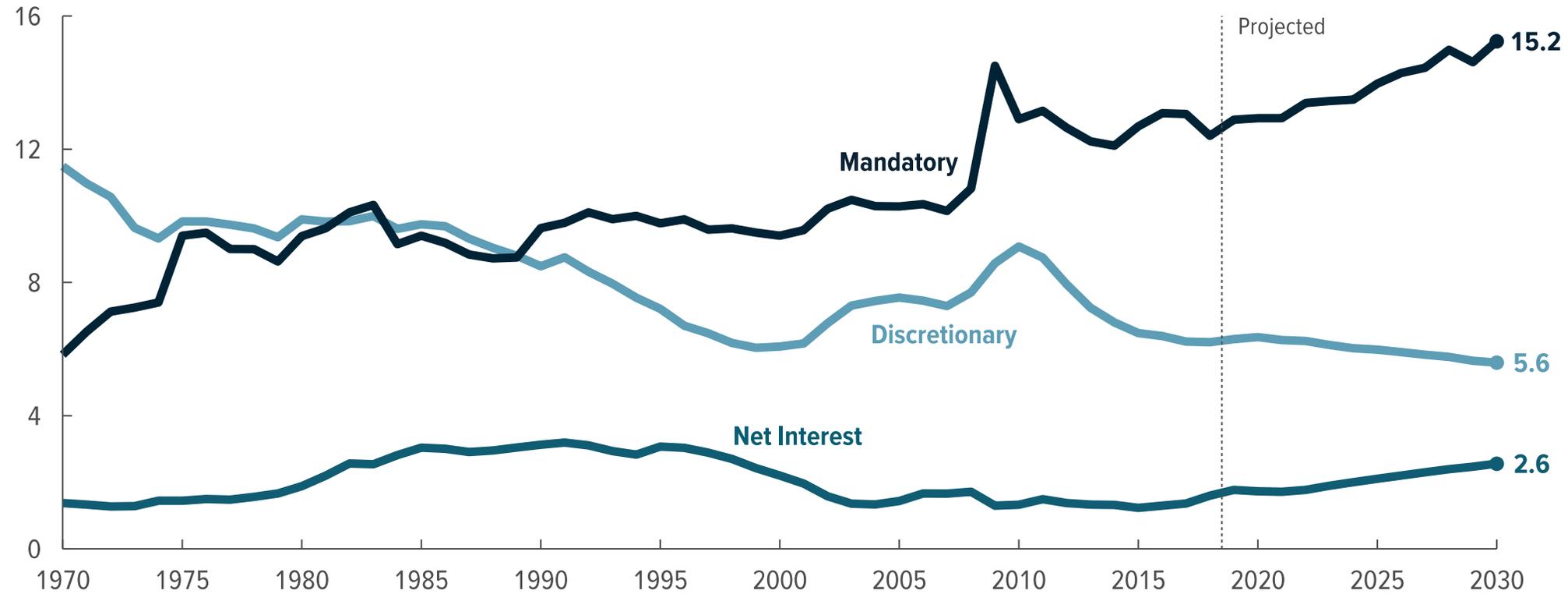
Percentage of Gross Domestic Product



Spending

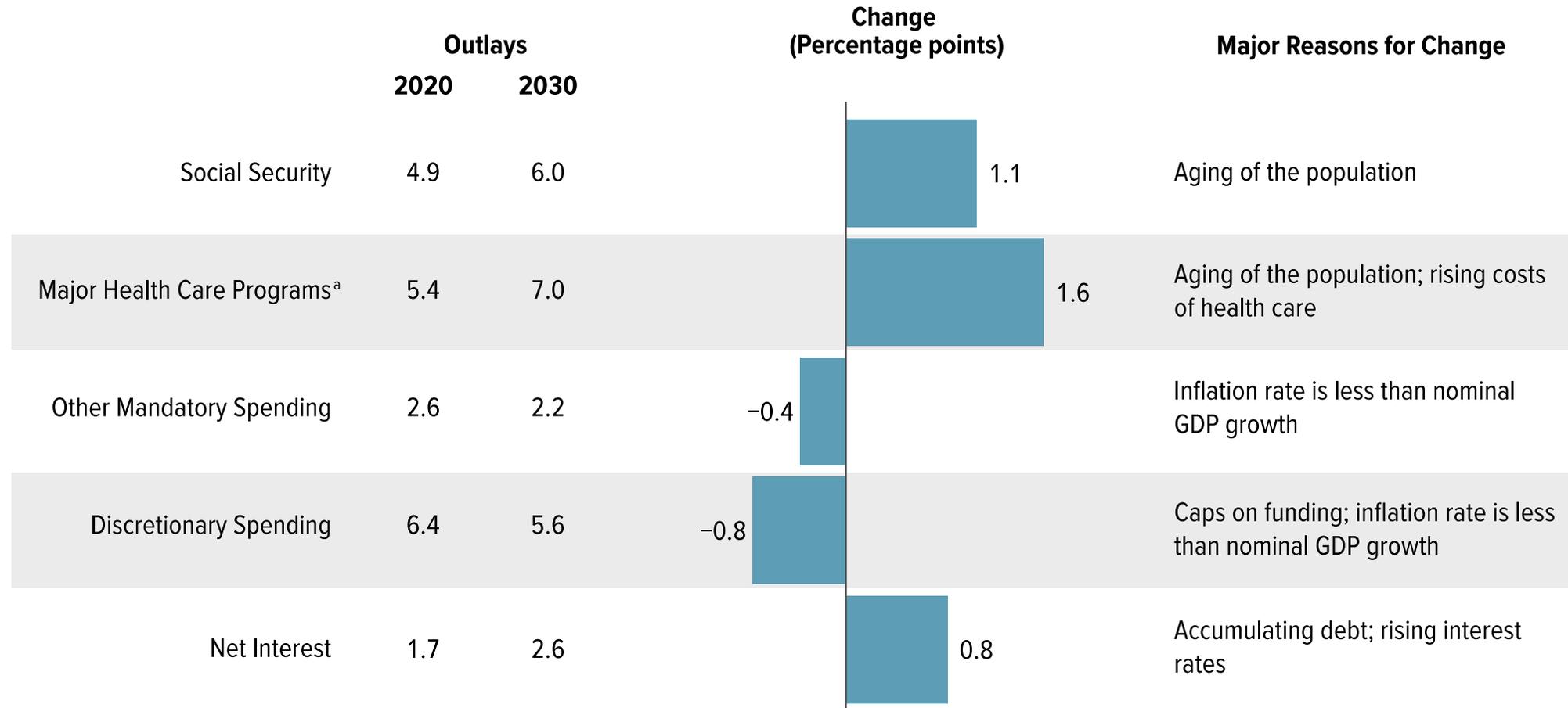
Federal Outlays, by Category

Percentage of Gross Domestic Product



Changes in Projected Outlays From 2020 to 2030

Percentage of Gross Domestic Product



a. Consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, the Children's Health Insurance Program, premium tax credits, and related spending.